0000020495

EXHIBIT A-1 Admitted

[LEMENT AGREEMENT

The undersigned Parties stipulate and agree to the following settlement provisions in connection with the rate application submitted by Northern States Power Company ("NSP"), a Minnesota corporation, and Black Mountain Gas Company ("BMG" or "Company") before the Arizona Corporation Commission ("Commission") for BMG's Cave Creek Division, specifically: *In The Matter Of The Application Of Northern States Power Company, A Minnesota Corporation, And Black Mountain Gas, A Subsidiary Of Northern States Power Company, A Minnesota Corporation, To Determine Earnings For Ratemaking Purposes, To Fix A Just And Reasonable Rate Of Return Thereon And To Approve Rate Schedules Designed To Develop Such Return For The Cave Creek Division,* Docket No. G-03703A-00-0283. The test year for the filing was the calendar year ended December 31, 1999. At the time this filing was made with the Commission on April 28, 2000, BMG was a division of NSP. Subsequent to the filing, BMG became a subsidiary of NSP. Shortly thereafter, NSP merged with New Century Energies, Inc. and formed Xcel Energy, Inc. ("Xcel"). BMG is currently a subsidiary of Xcel.

1. Parties to the Agreement.

Parties to this Agreement include the Commission Staff ("Staff"), Xcel, BMG, the Residential Utility Consumer Office ("RUCO").

2. Statement of Intention and Admissions.

The purpose of this Agreement is to resolve contested matters in a manner consistent with the public interest. Nothing contained in this Agreement is an admission by any Party that any of the positions taken, or that might be taken by each in formal proceedings, is unreasonable. In addition, acceptance of the Agreement by any of the Parties is without prejudice to any position taken by any Party in these proceedings.

3. Fair Value Rate Base, Fair Rate of Return and Revenue Requirement.

The Parties agree that the fair value of rate base at December 31, 1999 for BMG's Cave Creek Division is $11,011,553 and that 9.61% is a fair rate of return on this rate base. The Parties further agree to a total revenue requirement for the Cave Creek Division of $5,901,510.

4. Revised Rates and Charges.

The Parties adopt the revised rates and charges for purposes of this Agreement as provided in the attached and incorporated Appendix A.

5. Revised Base Cost of Purchased Gas.

The Parties agree that the cost of purchased gas included in the revised rates is $0.42 per therm. This represents a $0.15 per therm increase over the current base cost of $0.27.

6. Commission Action.

Each provision of this Agreement is in consideration and support of all other provisions, and expressly conditioned upon acceptance by the Commission without material change. In the event that the Commission fails to adopt this Agreement according to its terms by March 31, 2001, this Agreement shall be considered withdrawn and the Parties shall be free to pursue their respective positions in these proceedings without prejudice.

7. Limitations.

The terms and provisions of this Agreement apply solely to and are binding only in the context of the provisions and results of this Agreement and none of the positions taken herein by any of the Parties may be referred to, cited or relied upon by any other Party in any fashion as precedent or otherwise in any proceeding before this Commission or any other regulatory agency or before any court of law for any purpose except in furtherance of the purposes and results of this Agreement.

8. Proposed Order.

A proposed form of order acceptable to all the Parties will be prepared and filed by the Company within ten (10) business days of the latest date on which this Agreement is signed by the Parties. The Company will provide a draft of the proposed form of order to the other Parties at least five (5) business days prior to filing the proposed form of order with the Commission for the purpose of receiving comments on the draft.

DATED this 5th day of January, 2001.

(Signatures contained on the following pages)

BLACK MOUNTAIN GAS COMPANY

By: Jame H. Williams

ARIZONA CORPORATION COMMISSION STAFF

By: Barbara Wytaske

RESIDENTIAL UTILITY CONSUMERS OFFICE

By: ____________________

APPENDIX A

BLACK MOUNTAIN GAS COMPANY
CAVE CREEK DIVISION
Docket No. G-03703A-00-0283

REVISED RATES & CHARGES

Description	*Rate*
Residential:	
Standard Rate:	
Monthly Service Charge	$6.00
Commodity Rate Per Therm	$1.04357
Gas Air Conditioning:	
Monthly Service Charge	$6.00
Commodity Rate Per Therm	$0.51000
Compressed Natural Gas:	
Monthly Service Charge	$6.00
Commodity Rate Per Therm	$0.55000
Commercial:	
Standard Rate:	
Monthly Service Charge	$15.00
Commodity Rate Per Therm	$1.04357
Resort:	
Monthly Service Charge	$30.00
Commodity Rate Per Therm	$1.04357
Co-Gen:	
Monthly Service Charge	$30.00
Commodity Rate Per Therm	$0.48000
Service Charges:	
Establishment of Service	$20.00
Re-Establishment of Service	(1)
Re-Connection of Service—Regular Hours	$30.00
Re-Connection of Service—After Hours	$45.00
Service Calls Per Hour—Regular Hours	$30.00
Service Calls Per Hour—After Hours	$45.00
Meter Re-Read Charge—If Correct	$25.00
Meter Test Fee—Per Hour—If Correct	$25.00
NSF Check	$15.00
Late Charge—Per Month	1.5%
Security Deposit—Residential	(2)
Security Deposit—Commercial	(3)
Deferred Payment—Per Month	1.5%

Notes:

(1) Number of Months Off System Times Monthly Minimum Charge [A.C.C. R14-2-403(B)]

(2) Two (2) Times the Average Monthly Bill [A.C.C. R14-2-403(B)]

(3) Two and One-Half (2 ½) Times the Average Monthly Bill [A.C.C. R14-2-403(B)]

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BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM MUNDELL
Chairman
JAMES M. IRVIN
Commissioner
MARK SPITZER
Commissioner

IN THE MATTER OF THE APPLICATION OF BLACK MOUNTAIN GAS, CAVE CREEK OPERATIONS, FOR A HEARING TO DETERMINE THE EARNING OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON AND TO APPROVE RATE SCHEDULES.	Docket No. G-03703A-00-0283 **PROPOSED FORM OF OPINION AND ORDER**

BY THE COMMISSION:

On April 28, 2000, Black Mountain Gas Company ("BMG" or "Company") filed with the Arizona Corporation Commission ("Commission") an application to determine its earnings for ratemaking purposes, to fix a reasonable rate of return thereon and to approve rate schedules designed to develop such return for its Cave Creek Operations.

On May 26, 2000, the Utilities Division ("Staff") of the Commission filed a letter indicating that the Company's rate application was sufficient and classifying the Company as a Class A utility.

On May 30, 2000, the Residential Utility Consumer Office ("RUCO") filed a Motion for Leave to Intervene. There was no opposition to the request to intervene.

On June 20, 2000, the commission issued the Amended Rate Case Procedural Order ("ARC Order"), which granted intervention to RUCO and set forth the dates for hearing and for the filing of testimony. Pursuant to the parties' stipulation, these dates were modified and extended by an additional Procedural Order issued on December 11, 2000.

On January 9, 2001, the parties submitted a proposed Settlement Agreement ("Settlement Agreement"). Pursuant to the Settlement Agreement, the Company shall be authorized a fair value rate base at December 31, 1999 for BMG's Cave Creek Division of $11,011,553.00 and a 9.61% rate of return on that rate base, resulting in a total revenue requirement of $5,901,510.00. All parties concurred with the Settlement Agreement.

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. BMG, a Minnesota corporation, is a wholly-owned subsidiary of Northern States Power Company, which is also a Minnesota corporation. BMG provides public natural gas distribution in the vicinity of Cave Creek, Maricopa County, Arizona, and underground public propane distribution in the vicinity of Page, Coconino County, Arizona.

2. On April 28, 2000, BMG filed with the Commission an application to determine its earnings for ratemaking purposes, to

fix a reasonable rate of return thereon and to approve rate schedules designed to develop such return for its Cave Creek Operations.

3. On May 26, 2000, Staff filed a letter indicating that the Company's rate application was sufficient and classifying the Company as a Class A utility.

4. On May 30, 2000, RUCO filed a Motion for Leave to Intervene. There was no opposition to the request to intervene.

5. On June 20, 2000, the Commission issued the Amended Rate Case Procedural Order ("ARC Order"), which granted intervention to RUCO and setting the dates for hearing and the filing of testimony, establishing requirements for notice to customers and the general public, and otherwise governing the conduct of the proceeding. Pursuant to the parties' stipulation, these dates were modified and extended by an additional Procedural Order issued on December 11, 2000.

6. The Company subsequently provided notice in accordance with the Commission's requirements.

7. On January 9, 2001, the parties submitted a proposed Settlement Agreement ("Settlement Agreement"). Pursuant to the Settlement Agreement, the Company shall be authorized a fair value rate base at December 31, 1999 for BMG's Cave Creek Division of $11,011,553.00 and a 9.61% rate of return on that rate base, resulting in a total revenue requirement of $5,901,510.00. All parties concurred with the Settlement Agreement.

8. A copy of the Settlement Agreement is attached as Exhibit A, and is incorporated herein by reference.

9. BMG, Staff and RUCO believe that the Settlement Agreement is consistent with the best interests of the parties and the public interest generally.

10. On **[DATE]**, 2000, the Commission held a public comment session on this matter at the Commission's offices in Phoenix, Arizona. **["NO MEMBER OF THE PUBLIC APPEARED" OR DESCRIPTION OF PUBLIC COMMENT.]**

CONCLUSIONS OF LAW

11. The Company is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250, 40-251 and 40-367.

12. The Commission has jurisdiction over the Company, over the Company's rate application and the Settlement Agreement.

13. The Company has provided notice of its rate application in accordance with the law.

14. The Settlement Agreement resolves all matters raised by the Company's rate application in a manner that is just and reasonable, and promotes the public interest.

5. The fair value of the Company's rate base for its Cave Creek, Arizona properties, at December 31, 1999, was $11,011,553.00, and that 9.61 percent (%) is a reasonable rate of return on the Company's rate base.

6. It is just and reasonable to authorize a resulting total revenue requirement of $5,901,510.00 for the Company's Cave Creek Operations.

7. The Company should be directed to file revised tariffs consistent with the Settlement Agreement and the findings contained in this Opinion and Order.

8. The rates, charges, and conditions of service established herein are just and reasonable.

ORDER

IT IS THEREFORE ORDERED that the Company shall increase its rates and charges for its Cave Creek Operations as set forth in the Settlement Agreement for all usage on and after **[DATE]**, consistent with the Findings of Fact and Conclusions of Law contained herein so as to result in a total revenue requirement of $5,901,510.00.

IT IS FURTHER ORDERED that the terms and conditions of the Settlement Agreement filed on January 9, 2001, are hereby adopted and approved.

IT IS FURTHER ORDERED that the Company shall file revised tariffs that incorporate the rates, charges, and conditions of services consistent with the Findings and Conclusions of this Decision.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN	COMMISSIONER	COMMISSIONER

IN WITNESS WHEREOF, I, Brian McNeil, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of ___________, 2001.

____

BRIAN McNEIL
EXECUTIVE SECRETARY

DISSENT _______________

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FENNEMORE CRAIG
A PROFESSIONAL CORPORATION
PHOENIX

NORTHERN STATES POWER COMPANY
BLACK MOUNTAIN GAS DIVISION

DOCKET NO. G-03703A-00-0283

DIRECT TESTIMONY

OF

GORDON FOX

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

NOVEMBER 22, 2000

INTRODUCTION

Q. Please state your name and business address.

A. My name is Gordon L. Fox. My business address is 2828 North Central Avenue, Suite 1200, Phoenix, AZ 85004.

Q. By whom are you employed and in what capacity?

A. The Residential Utility Consumer Office (RUCO) employs me in the position of Utilities Chief Rate Analyst.

Q. Briefly summarize your educational and professional credentials related to your work in the field of utility regulation.

A. I have Master and Bachelor of Science Degrees in Accounting. I have earned the following professional accounting and finance certifications: Certified Public Accountant (CPA); Certified Management Accountant (CMA); and Certified in Financial Management (CFM). My utility experience includes three years in my current position, seven years in various auditing and rate analyst positions with the Arizona Corporation Commission and four years with a cable TV utility with responsibility for preparing and presenting rate applications before jurisdictional authorities.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to present RUCO's recommendations regarding Black Mountain Gas Company's ("Company" or "BMG") application for a permanent increase in rates based on the findings of my review and analysis of the Company's application and records. My testimony addresses operating income, rate base, capital cost, and rate design issues.

Q. Please identify the Exhibits presented in your testimony.

A. I am presenting Schedules GLF-1 through GLF-22.

Q. Please summarize the recommendations and adjustments addressed in your testimony.

A. My testimony addresses the following issues:

Plant in Service – This adjustment decreases rate base by $69,633. This adjustment removes post-test year expenditures the Company projected to capitalize in the future based on pro forma adjustments to expenses.

Plant Reclassification – This adjustment has no impact on rate base. This adjustment reclassifies $262,067 of Land to Structures and Improvement in accordance with an appraisal of the acquired land and facilities.

Accumulated Depreciation Pro Forma – This adjustment increases rate base by $83,038. This adjustment reverses the Company's pro forma adjustment to increase Accumulated Depreciation by $83,038 in excess of the end-of-test-year balance.

Accumulated Depreciation and Accumulated Amortization of Contributions-in-Aid-of-Construction (CIAC) – This adjustment has a net rate base impact of zero. This adjustment increases Accumulated Depreciation and Accumulated

Amortization of CIAC each by $416,726 to correct an error in the method of accounting for these accounts.

Construction Work in Progress (CWIP) – This adjustment reduces rate base by $282,035. This adjustment removes the Company pro forma adjustment to include CWIP that is unnecessary to provide service to the test-year-end customer level in rate base.

Reclassification of Customers and Revenues – This adjustment increases test year operating revenue by the net amount of $486 to correct for the misclassification of 18 commercial customers as residential customers for six months during the test year.

Revenue Annualization – This adjustment increases test year operating revenue by $85,776. This adjustment corrects the Company's understatement of the revenue annualization required to reflect the test-year-end level of residential and commercial customers.

Purchased Gas Adjustment – This adjustment decreases test year operating revenue by $49,472. This adjustment removes the revenues recovered during the test year that exceed the base cost of gas.

Purchase Gas Cost – This adjustment increases test year operating expenses by $35,063 to correspond with RUCO's annualized level of customers and gas consumption.

Sales Promotion Pro Forma – This adjustment reduces test year operating expenses by $22,773. This adjustment removes non-recurring contract labor costs for activities now being performed by Company employees.

Sales Promotion – This adjustment reduces test year operating expenses by $10,976 to remove costs unnecessary for and/or unrelated to the provision of public utility service.

Depreciation Expense – This adjustment increases test year operating expenses by $8,727 to reflect RUCO's reclassification of portions of plant from a non-depreciable account to a depreciable account.

Investment Tax Credits (ITC) – This adjustment decreases test year operating expenses by $4,957 to reflect amortization of the Company's ITCs that were omitted in the Company's filing.

Income Tax Expense - This adjustment decreases test year operating expenses by $14,675 to reflect income tax expense calculated on RUCO's recommended revenues and expenses on a stand-alone basis.

Rate Design – I recommend a rate design that is generally consistent with the Company's proposed rate design adjusted to reflect RUCO's recommended revenue requirement.

REVENUE REQUIREMENTS

Q. Please summarize the results of your analysis of BMG's filing and state RUCO's recommended revenue requirement.

A. I am recommending that BMG's revenue requirement not exceed $6,019,277. My recommended revenue requirement represents a $202,340 (3.48 percent) increase over the adjusted test year revenue of $5,813,937 and includes a base cost of gas of $0.42 per therm. My recommended revenue requirement is

$87,048 less than the Company's proposal of $6,103,325. Schedule GLF-1 presents the calculation of my recommended revenue requirement.

RATE BASE

Rate Base Recommendation

Q. Please state the amount of the rate base you are recommending.

A. As shown on Schedule GLF-3, I am recommending a rate bas of $10,831,870. My recommended rate base is a decrease of $268,630 from the Company's proposal of $11,100,500.

Rate Base Adjustment No. 1 – Plant Pro Forma

Q. Do you agree with the Company's $91,046 pro forma adjustment to increase plant as shown on Schedule B-2 of the filing?

A. No. The Company's pro forma adjustment is based on other pro forma adjustments it made to Salaries and Wages Expense. The Company Salaries and Wages Expense pro forma adjustment consists of components for (1) incentive bonuses, (2) salary and wage increases, (3) changes in employment levels, and (4) annualization of contract employee services. The pro forma adjustment pertaining to incentive bonuses represents costs incurred for services provided during the test year. However, BMG did not record the incentive bonus costs in the test year. Therefore, the portion of these costs that should have been capitalized should also be included in rate base. The incentive bonus portion of the Company's $91,046 pro forma adjustment that should have been capitalized is $21,413 and I have accepted this portion of the Company's pro forma adjustment.

The remaining portion ($69,633) of the Company's pro forma adjustment to capitalize plant pertains to the forward-looking segment of the Company's pro forma adjustment to Salary and Wages (i.e., pro forma wage increases/employee annualizations.) These items will not be eligible for capitalization until the year after the test year. Thus, $69,633 of the Company's pro forma salaries and wages had not been incurred at the end of the test year, and accordingly, cannot be capitalized.

Q. Is the Company's proposal to capitalize projected amounts of pro forma expenses to be incurred in the future a normal ratemaking treatment?

A. No. The $69,633 portion of the Company's pro forma adjustment that represents projected capitalization of salaries and wages is inappropriate and should be excluded from rate base.

Q. What adjustment are you recommending for pro forma plant adjustment?

A. As shown on Schedule GLF-4, Line 28, I have removed $69,633 of the Company's proposed $91,046 pro forma plant adjustment.

Rate Base Adjustment No. 2 – Plant Reclassification

Q. Please explain your adjustment to reclassify $262,067 from General Land to General Structures and Improvements.

A. Schedule E-5 of the Company's filing shows a $502,044 addition to the account General Land & Rights in the year 1999. In response to Staff data request MSJ-144 the Company stated that the land was appraised at $239,000. BMG paid $500,000 for the land and building and incurred $2,044 of fees related to the transaction. As shown on Schedule GLF-6, I allocated the fees to the land and building on a pro-rata (proportional) basis. As a result, $262,067 of the $502,044 cost to acquire the land and build is attributed to land and the remaining $239,977 attributed to the building. Thus, I reclassified $262,067 from the General Land account to General Structures and Improvements.

Rate Base Adjustment No. 3 – Accumulated Depreciation Proforma

Q. Do you agree with the Company's $83,038 pro forma adjustment to increase Accumulated Depreciation as shown on Schedule B-2 of the filing?

A. No. In response to RUCO data request 2.11(b) the Company cited matching of the year-end plant included in rate base as the reason for the pro forma adjustment. The $83,038 adjustment represents one-half of the annual depreciation on the plant additions made in the test year. The Company had already recorded $83,038 of Depreciation Expense in the test year. Since the Company uses the half-year convention to record depreciation, only one-half of the annual depreciation should be recorded in the first year plant is placed in service. Therefore, the Company's Accumulated Depreciation balance at the end of the test year was correct and no adjustment is necessary. Apparently, the Company is of the mistaken understanding that Accumulated Depreciation must be adjusted to reflect a full year's depreciation for plant placed in service during the test year in order to recognize a full year's depreciation as expense. The Company's pro forma adjustment of $83,038 to Depreciation Expense as shown on Schedule C-1 of the filing is a known and measurable change on a going forward basis and therefore is appropriate, however, a retroactive restatement of Accumulated Depreciation is not appropriate.

<u>Rate Base Adjustment No. 4 – Accumulated Amortization of CIAC and Accumulated Depreciation</u>

Q. Please explain how the Company has been accounting for the Accumulated Amortization of CIAC.

A. The Company has not been recording the Accumulated Amortization of CIAC. Instead, the Company has netted the annual Amortization of CIAC against Accumulated Depreciation.

Q. What is the result of the Company's accounting method?

A. The Company's accounting method results in an understatement of Accumulated Amortization of CIAC and an understatement of Accumulated Depreciation. Since the understatement of Accumulated Amortization of CIAC decreases rate base and understatement of Accumulated Depreciation increases rate base, the error has no direct impact on rate base.

Q. What adjustment are you recommending to correct the error in the Company's method of account for Accumulated Amortization of CIAC and Accumulated Depreciation?

A. As shown on Schedule GLF-4, Lines 30 and 33, I have increased both accounts by $416,726, which is the balance of Accumulated CIAC shown on the Company's depreciation records at December 31, 1999 (Data Response 2.11(j)).

<u>Rate Base Adjustment No. 5 – Construction Work in Progress (CWIP)</u>

Q. Has the Company included any CWIP balances in rate base?

A. Yes. Schedule B-1 of the filing shows that the Company proposes to include $282,035 of CWIP in rate base.

Q. Do you agree with the Company's proposal to include $282,035 of CWIP in rate base?

A. No. It is my experience that the Commission does not typically include CWIP in rate base. The exclusion of CWIP is appropriate because CWIP does not provide service to customers during the test year. In this case, none of the projects under construction are replacements for existing plant or otherwise required to continue providing service to the test-year-end level of customers. The Company's proposal to included CWIP in rate base represents a mismatch of revenues, expenses and rate base. The projects will provide incremental revenues that are not reflected in the filing. In addition, new plant can affect operating characteristics that in turn affect revenue and expenses. That is, the effects are not known and measurable. Further, due to outstanding accounts payable and use of non-investor provided funds (e.g., advances-in-aid-of-construction) CWIP expenditures do provide an accurate representation of investor-supplied funds.

Q. What adjustment have you made to CWIP?

A. As shown on Schedule GLF-4, Line 4, I have removed $282,035 of CWIP from rate base. This adjustment removes the Company's proposed amount in its entirety.

OPERATING INCOME

Operating Income Summary

Q. What are the results of your analysis of test year revenues, expenses, and operating income?

A. As shown on Schedule GLF-7, my analysis resulted in test year revenues of $5,813,937, expenses of $4,895,989, and an operating income of $917,948. The Company's filing shows test year revenues of $5,777,147, expenses of $4,905,581, and operating income of $871,566. These operating results reflect the use of $0.42 per therm as the base cost of gas.

Operating Income Adjustment No. 1 – Reclassification of Revenue

Q. Do you agree with the classification of customers and revenue as presented in the Company's filing?

A. No. In response to RUCO data request 2.1, the Company stated that as a result of converting to a new billing system during the test year 18 commercial customers were misclassified as residential customers for a six-month period.

Q. What have you done to correct the misclassification of customers and revenues?

A. As shown on Schedule GLF-9, Lines 1 through 20, I have reclassified 18 residential customers and their associated consumption in therms as commercial customer using the average consumption rate of commercial customers.

Q. What is the revenue impact of the reclassification?

A. Commercial revenues increase by $35,376 and residential revenues decrease by $34,890 for a net increase of $486.

Q. Why did revenues increase due to the reclassification?

A. Revenues increased because the monthly minimum charges for commercial and residential customers, respectively, are $10.00 and $5.50, a difference of $4.50 ($4.50 per month x 6 months x 18 customers equals $486.00).

Operating Income Adjustment No. 2 – Annualization of Revenue

Q. How did the Company annualize revenues?

A. The Company restricted its revenue annualization to residential customers. The Company multiplied the test-year-end level of residential customers by twelve (12) months to determine the number of annualized residential billings. The Company used the annualized billings to determine the revenue from monthly minimum charges. The Company also annualized consumption in therms by multiplying the difference between the annualized residential customer billings and the actual test year residential billings. The Company multiplied this difference in residential billings times the average monthly consumption in therms for the entire test year.

Q. Do you agree with the Company method of annualizing revenues?

A. No. The annualization should include commercial as well as residential customers. Also, using the average monthly consumption in therms for the entire test year distorts the probable usage by failing to recognize that usage is seasonal.

Q. Have you recalculated the annualization of revenue to correct these errors?

A. Yes. My recalculation of the annualization adjustment is shown on Schedule GLF-9. My recalculation recognizes seasonal changes by multiplying the test-year-end customer level by the average usage in the test year for each individual month for residential and commercial customers by class. My annualization adjustment also reflects the reclassification of customers as discussed previously.

Q. What adjustment have you made to annualize revenues?

A. As shown on Schedule GLF-9, Lines 26 and 38, I increased Commercial Gas Sales by $63,294 and Residential Gas Sales by $22,482 for a total of $85,776.

<u>Operating Income Adjustment No. 3 – Purchase Gas Adjustment</u>

Q. What amount of purchase gas adjustment did the Company include in its test year revenue?

A. The Company's test year revenue of $5,777,147 represents the following amounts: revenues per bill count, $4,626,709; adjustment to increase base cost of gas from $0.27 per therm to $0.42 per therm; annualization of residential revenue, $260.660; other revenues, $56,570; and purchase gas adjustment, $49,472. Thus, the Company's test year revenue includes $49,472 for the recovery of gas cost above the cost of gas included in base rates.

Q. Should the adjusted test year revenue include any amount for the purchase cost of gas above the base cost of gas?

A. No. The Company has a purchase gas adjustor mechanism (PGA) that provides for offsetting the over- and under-recovery of the purchase cost of gas. The test year revenues will be distorted by the inclusion of PGA revenues. The test year revenues should only reflect the $0.42 per therm base cost of gas. Any additional gas cost recoveries through the PGA mechanism should not be included in the calculation of base rates, since such costs are to be recovered through a separate PGA tariff.

Q. What adjustment have you made to revenues pertaining to the purchase gas adjustment?

A. As shown on Schedule GLF-8, I removed $49,472 of purchase gas adjustment operating revenues. This adjustment completely removes purchase gas adjustment revenues from test year revenues to reflect a base cost of gas at $0.42 per therm.

Operating Income Adjustment No. 4 – Annualization of Purchase Gas Cost

Q. Please explain your adjustment to increase Purchase Gas Cost by $35,063.

A. My adjustment to Purchase Gas Cost is a companion adjustment to my adjustment to annualize revenues. My adjustment to annualize revenues is based on the sale of 5,308,392 therms, or 83,483 therms more than proposed by the Company. As shown on Schedule GLF-10, the incremental cost of purchasing 83,483 additional therms of gas at the rate of $0.42 per therm is $35,063. Thus, I have increased the purchase cost of gas by $35,063.

Operating Income Adjustment No. 5 – Sales Promotion Pro Forma

Q. What is the purpose of the Company's $37,991 pro forma adjustment to increase Sales Promotion Expense as shown on Schedule C-2, Page 2 of 3, of the filing?

A. In November 1999, the Company hired a full-time employee as a Marketing Manager. The $37,991 pro forma adjustment proposed by the Company represents the portion of the annualization of the Marketing Manager's salaries and benefits charged to sales promotion activities.

Q. Do you agree that annualization of the Marketing Manager's salary and benefits is appropriate?

A. Yes. The Marketing Manager's position is a permanent full-time position.

Q. Do you agree with the Company's calculation of the pro forma adjustment for the Marketing Manager's position?

A. No. During the test year the Company charged $22,773 to operating expenses for contract labor to perform marketing and sale activities that will now be performed by the Marketing Manager. The Company has not removed the marketing and sales charges paid on contract labor from operating expenses. Including the sales and marketing contract labor and the Marketing Manager's salary and benefits in operating expenses results in a double count and a double recovery of sales and marketing costs.

Q. What adjustment have you made to Sales and Promotion Expense pertaining to the Company's pro forma adjustment?

A. As shown on Schedule GLF-8, Line 11, Column F, I have decreased Sales and Promotion Expense by $22,773 to eliminate the test year contract marketing and sales expenses. These activities will now be performed by the Marketing Manager and therefore are non-recurring.

Operating Income Adjustment No. 6 – Sales Promotion

Q. Do you agree with the Sales and Promotion expenses recorded by the Company during the test year?

A. No. I reviewed a sample of the Company's recorded advertising and promotion expenses and identified twelve (12) items that were inappropriately charged to the public service activities during the test year. Schedule GLF-11 identifies each of the items and the specific reason each should not be included for recovery from ratepayers in operating expense. Each of these items should be excluded from operating expenses for one or more of the following reasons: (1) The expense was incurred outside the test year. (2) The item was not necessary for the provision of public service. (3) The item should have been charged to BMG's non-regulated divisions (e.g. Gas-Connection or Lake Powell). (4) The expense was incurred for merchandising activity.

Q. What adjustment have you made to Sales and Promotion Expense pertaining to recorded test year expenses?

A. As shown on Schedule GLF-8, Line 11, Column G, I have decreased Sales and Promotion Expense by $10,976 related to recorded test year expenses.

<u>Operating Income Adjustment No. 7 – Depreciation Expense</u>

Q. Please explain your adjustment to increase Depreciation Expense by $8,727 as shown on Schedule GLF-8, Line 13.

A. Previously, I discussed the reclassification of $262,067 from General Land & Rights to General Structures and Improvements. My adjustment to Depreciation Expense is a companion adjustment. General Land & and Rights is not a depreciable account as is General Structures and Improvements. Accordingly, Depreciation Expense must be adjusted to reflect the depreciable nature of the reclassified plant amount. My calculation of the incremental Depreciation Expense due to the reclassification is shown on Schedule GLF-12.

<u>Operating Income Adjustment No. 8 – Investment Tax Credits (ITC)</u>

Q. Has the Company reflected any ITC in its filing?

A. No.

Q. Does BMG have any ITCs?

A. Yes. In response to Staff data request KFR 1-94, the Company provided an attachment showing ITCs generated in the years 1982 through 1986. The outstanding ITCs are being amortized over 30 years. The attachment shows the annual ITC amortization as $6,366. The Company claims it has failed to maintain adequate records determine its election for treatment (rate base deduction or amortization to operating expense) of ITC under U.S. Treasury Regulations. However, the Company noted that according to its audited financial statements, BMG elected to amortize the ITCs over the life of the assets.

Q. How do you recommend that the ITCs be treated?

A. I recommend that the ITC be amortized to operating expense using a period of 30 years in accordance with the attachment provided by the Company.

Q. What amount should be recognized for the Cave Creek Division?

A. In Docket No. G-03493A-98-0705, BMG's most recent rate case for its Page Division, the Company filing (Schedule C-2, Page 2 of 2) shows a $1,409 annual amortization of ITCs for that division. I recommend that the remaining portion of the annual ITC amortization be recognized in the Cave Creek Division.

Q. What adjustment are you recommending for ITCs?

A. As shown on Schedule GLF-13, Line 3, I have recognized an annual amortization of ITCs of $4,957. The amortization of ITCs decreases operating expenses.

Operating Income Adjustment No. 9 – Income Tax Expense

Q. Have you reviewed the Company's proposed treatment of Income Tax Expense?

A. Yes. BMG is allocated a portion of its parent company's (Northern States Power) tax burden based on BMG's contribution to consolidated tax liability. BMG's allocated amount is then further allocated between various regulated and non-regulated BMG activities. For purposes of the rate filing, the Company made additional adjustments reflecting allocations of short-term interest expense, short-term investment income, and capitalized interest among its regulated and non-regulated activities to calculate taxable income for the Cave Creek Division. The Company applied a combined state and federal income tax rate of 40.2 percent to the resultant taxable income allocated the Cave Creek Division.

Q. Is the Company's calculation of Income Tax Expense consistent with the treatment normally recognized by the Commission?

A. No. For rate-making purposes, the Commission recognizes Income Tax Expense on a stand-alone system/division basis recognizing only regulated jurisdictional revenue, authorized operating expenses, and synchronized interest expense.

Q. Do you agree with the Company's method of calculating Income Tax Expense?

A. No. The Company's method includes non-operating income and expenses, requires allocations subject to judgment and manipulation, does not reflect a stand-alone basis, and applies an incorrect tax rate.

Q. Have you calculated federal and state Income Tax Expense in the manner normally recognized by the Commission based on your determination of test year revenues and expenses at present rates?

A. Yes. Schedule GLF-14 shows the proper calculation of state and federal Income Tax Expense on test year income at present rates.

Q. What adjustment have you made to test year Income Tax Expense?

A. As shown on Schedule GLF-8, Line 19, I decreased Income Tax Expense by $14,675 from the Company's proposed amount of $510,887 to $496,212.

Q. Have you also prepared a schedule the showing calculation of Income Tax Expense on your proposed revenue?

A. Yes. Schedule GLF-2 presents a calculation of income taxes on my proposed revenue. Schedule GLF-2 provides a proof that my proposed revenue will provide for all state and federal income taxes and result in the operating income I am recommending. This schedule also shows the calculation of the revenue conversion factor that reconciles the required increase in revenue with the test year and required operating incomes.

the Company's, I have increased the monthly minimum charges for each customer class by 60 percent of the increase proposed by the Company. My recommended usage rates (charge per therm) are established at levels that when combined with the minimum charges generate an increase in revenues for each customer class that is approximately equal to the overall required percentage increase in revenue. Thus, each customer class receives the same overall increase in revenue. This is consistent with the Company's cost of service study. Cost of service studies such as that prepared by the Company provide only a general indication of the true cost of providing service to the various customer classes.

Q. Does the Company's proposed rate design represent a significant change from the existing rate design?

A. No. Based on the results of the Company's cost of service study, there is no evidence to support a shift in the revenues between customer classes. With the exception of co-generation customers, the Company's proposed rates also maintain the relative revenue distribution of the existing rates.

Q. What is the significant change to the co-generation tariff?

A. The existing monthly minimum charge is $10.00 and my recommended charge is $22.00. The Company's proposed monthly minimum for co-generation customers is $30.00.

Q. Why is the monthly minimum charge increasing significantly?

A. The contribution margin on the usage rate for co-generation customers is smaller than for other classes of customers. As a consequence, the Company's ability to recover customer related costs via the usage rate is lower than for other customer classes. That is, the Company's risk related to recovery of unavoidable costs is greater for co-generation customers than for other classes of customers.

Q. Does this conclude your direct testimony?

A. Yes.

Black Mountain Gas Company, Cave Creek Division
Docket No. G-03703A-00-0283
Direct Testimony of Gordon L. Fox

TABLE OF CONTENTS TO SCHEDULES GLF

Black Mountain Gas Company, Cave Creek Division
Docket No. G-03703A-00-0283
Test Year Ended December 31, 1999

Schedule GLF-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) RUCO ORIGINAL COST
1	*Adjusted Rate Base*	$ 11,100,500	$ 10,831,870
2	Adjusted Operating Income (Loss)	$ 871,566	$ 917,948
3	Current Rate of Return (L2 / L1)	7.85%	8.47%
4	Required Rate of Return	9.6088%	9.6088%
5	Require Operating Income (L4 * L1)	$ 1,066,620	$ 1,040,808
6	Operating Income Deficiency (L5 - L2)	$ 195,054	$ 122,861
7	Gross Revenue Conversion Factor	1.6722	1.6469
8	Required Revenue Increase (L7 * L6)	$ 326,178	**$ 202,340**
9	Adjusted Test Year Revenue	$ 5,777,147	$ 5,813,937
10	Proposed Annual Revenue (L8 + L9)	$ 6,103,325	$ 6,016,277
11	Require Increase in Revenue (%) (L8 / L9)	5.71%	3.48%
12	Rate of Return on Common Equity (%)	10.75%	10.75%

References:
Column (A): Company Schedules A-1, C-3, & D-1
Column (B): RUCO Schedules GLF-2, GLF-3, GLF-7, & GLF-14

Black Mountain Gas Company, Cave Creek Division
Docket No. G-03703A-00-0283
Test Year Ended December 31, 1999

Schedule GLF-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	Calculation of Gross Revenue Conversion Factor:				
1	Revenue	1.0000			
2	Less: Combined Federal and State Tax Rate (Line 10)	0.3928			
3	Subtotal (L1 - L2)	0.6072			
4	**Revenue Conversion Factor (L1 / L3)**	1.6469			
	Calculation of Effective Tax Rate:				
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	8.0000%			
7	Federal Taxable Income (L5 - L6)	92.0000%			
8	Applicable Federal Income Tax Rate (Line 32)	34.0000%			
9	Effective Federal Income Tax Rate (L7 x L8)	31.2800%			
10	Combined Federal and State Income Tax Rate (L6 +L9)	39.2800%			
11	Required Operating Income (Schedule GLF-1, Line 5)	$ 1,040,808			
12	AdjustedTest Year Operating Income (Loss) (Schedule GLF-7, Line 21)	$ 917,948			
13	Required Increase in Operating Income (L11 - L12)		$ 122,861		
14	Income Taxes on Recommended Revenue (Col. (D), L31)	$ 575,691			
15	Income Taxes on Test Year Revenue (Col. (B), L31)	$ 496,212			
16	Required Increase in Revenue to Provide for Income Taxes (L14 -L15)		$ 79,479		
17	Total Required Increase in Revenue (L13 + L16)		$ 202,340		
	Calculation of Income Tax:	Test Year		RUCO Recommended	
18	Revenue (Schedule GLF-7, Col.(C), Line 5 & Sch. GLF-1, Col. (B), Line 10)	$ 5,813,937		$ 6,016,277	
19	Less: Operating Expenses Excl. Inc. Tax (Sch GLF-7, Col. (C), L6 thru L17)	$ 4,404,735		$ 4,404,735	
20	Less: Synchronized Interest (L35)	$ 145,934		$ 145,934	
21	Arizona Taxable Income (L18 - L19 - L20)	$ 1,263,268		$ 1,465,608	
22	Arizona State Income Tax Rate	8.00%		8.00%	
23	Arizona Income Tax (L21 x L22)		$ 101,061		$ 117,249
24	Federal Taxable Income (L21 - L23)	$ 1,162,206		$ 1,348,359	
25	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ 7,500		$ 7,500	
26	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	$ 6,250		$ 6,250	
27	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ 8,500		$ 8,500	
28	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ 91,650		$ 91,650	
29	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ 281,250		$ 344,542	
30	Total Federal Income Tax		$ 395,150		$ 458,442
31	Combined Federal and State Income Tax (L23 + L30)		$ 496,212		$ 575,691
32	Applicable Federal Income Tax Rate [Col. (D), L30 - Col. (B), L30] / [Col. (C), L24 - Col. (A), L24]				34.0000%
	Calculation of Interest Synchronization:				
33	Rate Base (Schedule GLF-3, Col. (C), Line 17	$ 10,831,870			
34	Weighted Average Cost of Debt (Schedule GLF-15, Col. [F], L1 + L2)	1.35%			
35	Synchronized Interest (L33 X L34)	$ 145,934			

Black Mountain Gas Company, Cave Creek Division
Docket No. G-03703A-00-0283
Test Year Ended December 31, 1999

Schedule GLF-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) RUCO ADJUSTMENTS	REF	(C) RUCO AS ADJUSTED
1	Gross Utility Plant in Service	$ 15,836,481	$ (69,633)		$ 15,766,848
2	Less: Accumulated Depreciation	3,110,191	333,688		3,443,879
3	Net Plant in Service	$ 12,726,290	$ (403,321)		$ 12,322,969
	LESS:				
4	Contributions in Aid of Construction (CIAC)	$ 673,542	$ -		$ 673,542
5	Less: Accumulated Amortization	-	416,726		416,726
6	Net CIAC	673,542	(416,726)		256,816
7	Advances in Aid of Construction (AIAC)	831,656	-		831,656
8	Customer Deposits	82,563	-		82,563
9	Deferred Income Tax Credits	679,121	-		679,121
10	Other Deductions	-	-		-
	ADD:				
11	Materials & Supplies Inventories	162,057	-		162,057
12	CWIP	282,035	(282,035)		-
13	New Building	197,000	-		197,000
14	Cash Working Capital Allowance	-	-		-
15	Deferred Debits	-	-		-
16	Other Additions	-	-		-
17	**Total Rate Base**	$ 11,100,500	$ (268,630)		**$ 10,831,870**

References:
Column (A), Company Schedule B-1
Column (B): Schedule GLF-4
Column (C): Column (A) + Column (B)

Black Mountain Gas Company, Cave Creek Division
Docket No. G-03703A-00-0283
Test Year Ended December 31, 1999

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] ADJ #4	[F] ADJ #5	[G] ADJ #6	[H] ADJ #7	[I] RUCO ADJUSTED
	PLANT IN SERVICE:									
1	Organization - Intangible Plant	$ 628,562	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 628,562
2	AFUDC - Debt	21,932	-	-	-	-	-	-	-	21,932
3	AFUDC - Equity	554,217	-	-	-	-	-	-	-	554,217
4	Franchises & Consents	286,863	-	-	-	-	-	-	-	286,863
5	Misc. Intangible Plant	5,833	-	-	-	-	-	-	-	5,833
6	Storage Plant - Land	4,135	-	-	-	-	-	-	-	4,135
7	Distribution Land Rights	1,768	-	-	-	-	-	-	-	1,768
8	Distribution Mains	8,660,801	-	-	-	-	-	-	-	8,660,801
9	Distribution Measuring & Reg.	189,903	-	-	-	-	-	-	-	189,903
10	Distribution Services	2,254,729	-	-	-	-	-	-	-	2,254,729
11	Meters	808,720	-	-	-	-	-	-	-	808,720
12	Meter Installations	363,128	-	-	-	-	-	-	-	363,128
13	House Regulators	19,154	-	-	-	-	-	-	-	19,154
14	House Regulators Installations	55,837	-	-	-	-	-	-	-	55,837
15	Industial Meas. Y R4eg.	971	-	-	-	-	-	-	-	971
16	Distribution Property on Customer Premise	245	-	-	-	-	-	-	-	245
17	Other Distribution Equipment	3,874	-	-	-	-	-	-	-	3,874
18	Interest Capitalized	1,986	-	-	-	-	-	-	-	1,986
19	General Land & Rights	502,044	-	(262,067)	-	-	-	-	-	239,977
20	General Structures & Improvements	217,547	-	262,067	-	-	-	-	-	479,614
21	Office Furniture & Equipment	578,893	-	-	-	-	-	-	-	578,893
22	Transportation Equipment	314,030	-	-	-	-	-	-	-	314,030
23	Tools & Shop Equipment	128,483	-	-	-	-	-	-	-	128,483
24	Power Operating Equipment	23,116	-	-	-	-	-	-	-	23,116
25	Communication Equipment	40,578	-	-	-	-	-	-	-	40,578
26	Miscellaneous Equipment	10,026	-	-	-	-	-	-	-	10,026
27	Other Tangible Property	68,060	-	-	-	-	-	-	-	68,060
28	Pro Forma Adjustment	91,046	(69,633)	-	-	-	-	-	-	21,413
29	Gross Utility Plant in Service	$ 15,836,481	$ (69,633)	$ -	$ -	$ -	$ -	$ -	$ -	$ 15,766,848
30	Less: *Accumulated Depreciation*	3,110,191	-	-	(83,038)	416,726	-	-	-	3,443,879
31	Net Plant in Service (L23 - L 24)	$ 12,726,290	$ (69,633)	$ -	$ 83,038	$ (416,726)	$ -	$ -	$ -	$ 12,322,969
	LESS:									
32	Contributions in Aid of Construction (CIAC)	$ 673,542	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 673,542
33	Less: Accumulated Amortization	-	-	-	-	416,726	-	-	-	416,726
34	Net CIAC (L25 - L26)	673,542	-	-	-	(416,726)	-	-	-	256,816
35	Advances in Aid of Construction (AIAC)	831,656	-	-	-	-	-	-	-	831,656
36	Customer Deposits	82,563	-	-	-	-	-	-	-	82,563
37	Deferred Income Tax Credits	679,121	-	-	-	-	-	-	-	679,121
38	Other Deductions	-	-	-	-	-	-	-	-	-
	ADD:									
39	Materials & Supplies Inventories	162,057	-	-	-	-	-	-	-	162,057
40	CWIP	282,035	-	-	-	-	(282,035)	-	-	-
41	New Building	197,000	-	-	-	-	-	-	-	197,000
42	Cash Working Capital Allowance	-	-	-	-	-	-	-	-	-
43	Deferred Debits	-	-	-	-	-	-	-	-	-
44	Other Additions	-	-	-	-	-	-	-	-	-
45	**Total Rate Base**	$ 11,100,500	$ (69,633)	$ -	$ 83,038	$ -	$ (282,035)	$ -	$ -	$ 10,831,870

ADJ #		References:
1	Plant in Service	Schedule GLF-5
2	Plant Reclassification	Schedule GLF-6
3	Accumulated Depreciation	Testimony, GLF
4	Accum. Deprec. & Accum. Amort. CIAC	Testimony, GLF
5	CWIP	Testimony, GLF

Black Mountain Gas Company, Cave Creek Division
Docket No. G-03703A-00-0283
Test Year Ended December 31, 1999

Schedule GLF-5

RATE BASE ADJUSTMENT #1 - PLANT PRO FORMA

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] RUCO ADJUSTMENTS	[C] RUCO AS ADJUSTED
1	Incentive Bonuses Prior Period Adjustment Capitalized	$ 21,413	$ -	$ 21,413
2	Salary & Wage Increase Pro Forma Capitalized	36,226	(36,226)	-
3	Employment Level Adjustment Pro Forma Capitalized	(3,488)	3,488	-
4	Professional Services Annualization Pro Forma Capitalized	36,895	(36,895)	-
5	Total	$ 91,046	$ (69,633)	$ 21,413

REFERENCES:
Column (A): Company Schedule B-2 and Response KFR 1-1, WP 11, Page 3, to Staff Data Request
Column (B): Testimony, GLF
Column (C): Column (A) - Column (B)

Black Mountain Gas Company, Cave Creek Division
Docket No. G-03703A-00-0283
Test Year Ended December 31, 1999

Schedule GLF-6

RATE BASE ADJUSTMENT #2 - RECLASSIFICATION OF PLANT

LINE NO.	DESCRIPTION	[A] AMOUNT	[B] PERCENT	[C] ALLOCATE FEES	[D] RUCO AS ADJUSTED	[E] COMPANY AS FILED	[F] RUCO ADJUSTMENT
1	Land	$ 239,000	47.8%	$ 977	$ 239,977	$ 502,044	$ (262,067)
2	Building	261,000	52.2%	$ 1,067	262,067	0	$ 262,067
3	Total	500,000	100.0%	$ 2,044	$ 502,044	$ 502,044	$ -
4	Fees	2,044					
5	Total	$ 502,044					

REFERENCES:
Column (A): Data Response 2.15
Column (C): Column (A) x Column (B)
Column (D): Column (A) + Column (C)
Column (E): Company Schedule E-5
Column (F): Column (D) - Column (E)

Black Mountain Gas Company, Cave Creek Division
Docket No. G-03703A-00-0283
Test Year Ended December 31, 1999

Schedule GLF-7

OPERATING INCOME - TEST YEAR AND RUCO PROPOSED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] RUCO TEST YEAR ADJUSTMENTS	[C] RUCO TEST YEAR AS ADJUSTED	[D] RUCO PROPOSED CHANGES	[E] RUCO RECOMMENDED
	REVENUES:					
1	Gas Sales - Residential	$ 4,484,962	$ (12,408)	$ 4,472,554	$ 151,921	$ 4,624,475
2	Gas Sales - Commercial	1,186,143	98,670	1,284,813	42,249	1,327,062
3	Purchased Gas Adjustment	49,472	(49,472)	-	-	-
4	Other Gas Revenues 1	56,570	-	56,570	8,170	64,740
5	**Total Operating Revenues**	$ 5,777,147	$ 36,790	$ 5,813,937	$ 202,340	**$ 6,016,277**
	EXPENSES:					
6	Purchase Gas Cost	$ 2,243,934	$ 35,063	$ 2,278,997	$ -	$ 2,278,997
7	Operating Wages & Expense	$ 171,748	-	171,748	-	171,748
8	Maintenance Wages & Expense	$ 103,161	-	103,161	-	103,161
9	Customer Accounting	$ 148,824	-	148,824	-	148,824
10	Customer Service	$ 33,232	-	33,232	-	33,232
11	Sales Promotion	$ 101,410	(33,749)	67,661	-	67,661
12	Administrative & General	$ 766,341	-	766,341	-	766,341
13	Depreciation	$ 581,110	8,727	589,837	-	589,837
14	Property Taxes	$ 212,052	-	212,052	-	212,052
15	Other Taxes	$ 6,606	-	6,606	-	6,606
16	Corporate Expense Allocation	$ 26,276	-	26,276	-	26,276
17	Other Expenses 1	$ -	-	-	-	-
18	Amortization of ITC	$ -	(4,957)	(4,957)	-	(4,957)
19	Income Taxes	510,887	(14,675)	496,212	79,479	575,691
20	**Total Operating Expenses**	$ 4,905,581	$ (9,592)	$ 4,895,989	$ 79,479	$ 4,975,469
21	**Operating Income (Loss)**	$ 871,566	$ 46,382	$ 917,948	$ 122,861	**$ 1,040,808**

References:
Column (A): Company Schedule C-1
Column (B): Schedule GLF-8
Column (C): Column (A) + Column (B)
Column (D): Schedules GLF-1 and GLF-2
Column (E): Column (C) + Column (D)

Black Mountain Gas Company, Cave Creek Division
Docket No. G-03703A-00-0283
Test Year Ended December 31, 1999

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] ADJ #4	[F] ADJ #5	[G] ADJ #6	[H] ADJ #7	[I] ADJ #8	[J] ADJ #9	[K] RUCO ADJUSTED
	REVENUES:											
1	Gas Sales - Residential	$ 4,484,962	$(34,890)	$ 22,482	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,472,554
2	Gas Sales - Commercial	1,186,143	35,376	63,294	-	-	-	-	-	-	-	1,284,813.0
3	Purchased Gas Adjustment	49,472	-	-	(49,472)	-	-	-	-	-	-	-
4	Other Gas Revenues 1	56,570	-	-	-	-	-	-	-	-	-	56,570.0
5	**Total Operating Revenues**	$ 5,777,147	$ 486	$ 85,776	$ (49,472)	$ -	$ -	$ -	$ -	$ -	$ -	$ 5,813,937
	EXPENSES:											
6	Purchase Gas Cost	$ 2,243,934	$ -	$ -	$ -	$ 35,063	$ -	$ -	$ -	$ -	$ -	$ 2,278,997
7	Operating Wages & Expense	171,748	-	-	-	-	-	-	-	-	-	171,748
8	Maintenance Wages & Expense	103,161	-	-	-	-	-	-	-	-	-	103,161
9	Customer Accounting	148,824	-	-	-	-	-	-	-	-	-	148,824
10	Customer Service	33,232	-	-	-	-	-	-	-	-	-	33,232
11	Sales Promotion	101,410	-	-	-	-	(22,773)	(10,976)	-	-	-	67,661
12	Administrative & General	766,341	-	-	-	-	-	-	-	-	-	766,341
13	Depreciation	581,110	-	-	-	-	-	-	8,727	-	-	589,837
14	Property Taxes	212,052	-	-	-	-	-	-	-	-	-	212,052
15	Other Taxes	6,606	-	-	-	-	-	-	-	-	-	6,606
16	Corporate Expense Allocation	26,276	-	-	-	-	-	-	-	-	-	26,276
17	Other Expenses 1	-	-	-	-	-	-	-	-	-	-	-
18	Amortization of ITC	-	-	-	-	-	-	-	-	(4,957)	-	(4,957)
19	Income Taxes	510,887	-	-	-	-	-	-	-	-	(14,675)	496,212
20	**Total Operating Expenses**	$ 4,905,581	$ -	$ -	$ -	$ 35,063	$ (22,773)	$ (10,976)	$ 8,727	$ (4,957)	$ (14,675)	$ 4,895,989
21	**Operating Income (Loss)**	$ 871,566	$ 486	$ 85,776	$ (49,472)	$ (35,063)	$ 22,773	$ 10,976	$ (8,727)	$ 4,957	$ 14,675	$ 917,948

ADJ #		References:
1	Revenue Reclassification	Schedule GLF-8
2	Revenue Annualization	Schedule GLF-8
3	Purchase Gas Adjustment	Testimony, GLF
4	Purchase Gas Cost	Schedule GLF-9
5	Sales Promotion	Testimony, GLF
6	Sales Promotion	Schedule GLF-11
7	Depreciation Expense	Schedule GLF-12
8	ITC Amortization	Schedule GLF-13
9	Income Taxes	Schedule GLF-14

Schedule GLF-9

Black Mountain Gas Company, Cave Creek Division
Docket No. G-03703A-00-0283
Test Year Ended December 31, 1999

OPERATING ADJUSTMENTS #1 & #2 - ANNUALIZATION AND RECLASSIFICATION OF GAS REVENUES

LINE NO.	[A]	[B] JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	Total
	RECLASSIFICATION													
	Commercial:													
1	Test Year Therms - Recorded	97,029	93,110	77,155	94,437	50,911	45,359	37,909	40,864	45,132	50,642	57,460	102,734	792,742
2	Test Year Customers - Recorded	148	152	152	150	149	152	146	148	148	150	147	170	1,812
3	Test Year Mo. Therms Per Customer - Recorded (L1 /L2)	655.60	612.57	507.60	629.58	341.68	298.41	259.65	276.11	304.95	337.61	390.88	604.32	437.50
4	Customers Misclassified as Residential	0	0	0	0	0	18	18	18	18	18	18	0	108
5	Reclassified Therms (L3 x L4)	-	-	-	-	-	5,371.46	4,673.71	4,969.95	5,489.03	6,077.04	7,035.92	-	33,617
6	Corrected Test Year Customers (L2 + L4)	148	152	152	150	149	170	164	166	166	168	165	170	1,920
7	Corrected Test Year Therms (L1 + L5)	97,029	93,110	77,155	94,437	50,911	50,730	42,583	45,834	50,621	56,719	64,496	102,734	826,359
8	Monthly Service Charge - TY	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	
9	Adjustment to TY Service Charge (L4 x L8)	$ -	$ -	$ -	$ -	$ -	$ 180.00	$ 180.00	$ 180.00	$ 180.00	$ 180.00	$ 180.00	$ -	$ 1,080.00
10	Commodity Rate (with $0.42 base cost of gas)	$ 1.0202	$ 1.0202	$ 1.0202	$ 1.0202	$ 1.0202	$ 1.0202	$ 1.0202	$ 1.0202	$ 1.0202	$ 1.0202	$ 1.0202	$ 1.0202	
11	Adjustment to TY Commodity Revenue (L5 x L10)	$ -	$ -	$ -	$ -	$ -	$ 5,479.96	$ 4,768.12	$ 5,070.34	$ 5,599.91	$ 6,199.80	$ 7,178.04	$ -	$ 34,296.17
12	Misclassification Adjustment (L9 + L11)													$ 35,376
	Residential:													
13	Therms Reclassified as Commercial (L5)	-	-	-	-	-	(5,371)	(4,674)	(4,970)	(5,489)	(6,077)	(7,036)	-	(33,617)
14	Commodity Rate (with $0.42 base cost of gas)	$ 1.0202	$ 1.0202	$ 1.0202	$ 1.0202	$ 1.0202	$ 1.0202	$ 1.0202	$ 1.0202	$ 1.0202	$ 1.0202	$ 1.0202	$ 1.0202	
15	Adjustment to TY Commodity Revenue (L13 x L14)	$ -	$ -	$ -	$ -	$ -	$ (5,479.96)	$ (4,768.12)	$ (5,070.34)	$ (5,599.91)	$ (6,199.80)	$ (7,178.04)	$ -	$ (34,296.17)
16	Customers Misclassified as Residential (Line 4)	-	-	-	-	-	(18)	(18)	(18)	(18)	(18)	(18)	-	(108.00)
17	Monthly Service Charge - TY	$ 5.50	$ 5.50	$ 5.50	$ 5.50	$ 5.50	$ 5.50	$ 5.50	$ 5.50	$ 5.50	$ 5.50	$ 5.50	$ 5.50	
18	Adjustment to TY Service Charge (L16 x L17)	$ -	$ -	$ -	$ -	$ -	$ (99.00)	$ (99.00)	$ (99.00)	$ (99.00)	$ (99.00)	$ (99.00)	$ -	$ (594.00)
19	Misclassification Adjustment (L9 + L11)													$ (34,890)
20	Net Misclassification Revenue Adjustment (L12 + L19)													$ 486.00
	ANNUALIZATION													
	Commercial:													
21	Test Year End Customers	170	170	170	170	170	170	170	170	170	170	170	170	2,040
22	Pro Forma Customer Annualization (L21 - L6)	22	18	18	20	21	-	6	4	4	2	5	-	120
23	Annualization of Monthly Service Charge (L22 x L8)	$ 220.00	$ 180.00	$ 180.00	$ 200.00	$ 210.00	$ -	$ 60.00	$ 40.00	$ 40.00	$ 20.00	$ 50.00	$ -	$ 1,200.00
24	Pro Forma Therms Annualization (L22 x L3)	14,423	11,026	9,137	12,592	7,175	-	1,558	1,104	1,220	675	1,954	-	60,865
25	Annualization of Commodity (L24 x L10)	$ 14,714.58	$ 11,248.91	$ 9,321.34	$ 12,845.95	$ 7,320.32	$ -	$ 1,589.37	$ 1,126.74	$ 1,244.42	$ 688.87	$ 1,993.90	$ -	$ 62,094.41
26	**Annualization Adjustment (L23 + L25)**	$ 14,934.58	$ 11,428.91	$ 9,501.34	$ 13,045.95	$ 7,530.32	$ -	$ 1,649.37	$ 1,166.74	$ 1,284.42	$ 708.87	$ 2,043.90	$ -	$ 63,294
	Residential:													
27	Test Year End Customers	5,653	5,653	5,653	5,653	5,653	5,653	5,653	5,653	5,653	5,653	5,653	5,653	67,836
28	Test Year Customers - Recorded	4,987	5,036	5,005	5,181	5,222	5,263	5,242	5,245	5,387	5,446	5,519	5,653	63,276
29	Customers Misclassified as Residential (Line 4)	-	-	-	-	-	18	18	18	18	18	18	-	108
30	Pro Forma Customer Annualization (L27 - L28 - L29)	666	617	558	472	431	372	393	390	248	189	116	-	4,452
31	Annualization of Monthly Service Charge (L30 x L17)	$ 3,663.00	$ 3,393.50	$ 3,069.00	$ 2,596.00	$ 2,370.50	$ 2,046.00	$ 2,161.50	$ 2,145.00	$ 1,364.00	$ 1,039.50	$ 638.00	$ -	$ 24,486.00
32	Test Year Therms - Recorded	577,335	504,046	415,727	541,652	221,628	165,417	103,571	77,485	110,188	143,115	288,153	608,274	3,756,591
33	Test Year Mo. Therms Per Customer - Recorded (L32 / L28)	115.77	100.09	81.60	104.55	42.44	31.43	19.76	14.77	20.45	26.28	52.21	107.60	
34	Pro Forma Therms Annualization (L30 x L33)	77,101.49	61,754.64	45,530.06	49,345.64	18,292.16	11,692.02	7,764.86	5,761.52	5,072.70	4,966.72	6,056.49	-	293,338.29
35	Annualization of Commodity (L34 x L14)	$ 78,658.94	$ 63,002.08	$ 46,449.77	$ 50,342.42	$ 18,661.66	$ 11,928.20	$ 7,921.71	$ 5,877.90	$ 5,175.17	$ 5,067.04	$ 6,178.83	$ -	$ 299,263.72
36	Annualization RUCO (L31 + L35)	$ 82,321.94	$ 66,395.59	$ 49,518.77	$ 52,938.42	$ 21,032.16	$ 13,974.20	$ 10,083.21	$ 8,022.90	$ 6,539.17	$ 6,106.54	$ 6,816.83	$ -	$ 323,750
37	Annualization - Company (KFR 1-1, WP-7 + $0.15 x 270,720)													$ 301,268
38	**Annualization Adjustment (L36 - L37)**													$ 22,482
39	Total Annualization Adjustment (L26 + L38)													85,776

References:
Lines 1, 2, 21, 27, 28 & 32: Company Response KFR 1-1, WP 12, to Staff Data Request
Line 4: D.R. 2.1

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Schedule GLF-10

OPERATING ADJUSTMENT #4 - ANNUALIZATION OF PURCHASE GAS COST

		[A]	[B]	[C]	[D]	[E]
LINE NO.	DESCRIPTION	THERMS COMPANY	THERMS RUCO	DIFFERENCE	BASE COST OF GAS	**RUCO ADJUSTMENT**
1	Residential	4,027,311	4,016,312	(10,999)	$ 0.42	$ (4,620)
2	Air Conditioning	6,272	6,272	-	$ 0.42	-
3	Commercial	792,742	887,224	94,482	$ 0.42	39,682
4	Resort	298,408	298,408	-	$ 0.42	-
5	Co-Generation	100,176	100,176	-	$ 0.42	-
6	Total	5,224,909	5,308,392	83,483		**$ 35,063**

References:
Column (A): Company Response KFR 1-1, WP 13, to Staff Data Request
Column (B): Schedule GLF-9
Column (C): Column (B) - Column (A)

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Schedule GLF-11

OPERATING ADJUSTMENT #6 - SALES PROMOTION ITEMS

LINE NO.	DESCRIPTION	REFERENCE DATE	[A] COMPANY PROPOSED	[B] RUCO RECOMMENDED	[C] RUCO ADJUSTMENT
1	Sonoran News (a)	31-Dec-98	228	-	(228)
2	Musicfest (b) & (c)	1-Jan-99	1,000	500	(500)
3	Foothills Sentinel (b)	31-Mar-99	474	-	(474)
4	Carefree Enterprise (b)	1-Apr-99	612	-	(612)
5	Town Planner (b)	29-Jul-99	5,616	1,872	(3,744)
6	Musicfest (b)	1-Aug-99	1,000	500	(500)
7	Tom Saxer & Friends (c)	21-Oct-99	489	-	(489)
8	Sonoran News (c) & (d)	29-Nov-99	570	171	(399)
9	Foothills Sentinel (c)	30-Nov-99	245	-	(245)
10	Myron Manufacturing Corp. (c)	2-Dec-99	1,179	393	(786)
11	C. E. - Prize (b)	28-May-99	$ 1,500	$ -	(1,500)
12	J. R. - Prize (b)	28-May-99	1,500	-	$ (1,500)
13	Total		$ 14,412	$ 3,436	$ (10,976)

(a) Out of Test Year
(b) Not necessary for provision of service
(c) Non-regulatory activity (e.g. Gas-Connection, Lake Powell)
(d) Merchandising

References:
Column (A): Company Response, Exhibit KFR-125, to Staff Data Request
Column (B): Testimony, GLF
Column (C): Column (B) - Column (A)

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Schedule GLF-12

OPERATING ADJUSTMENT #7 - DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	AMOUNT	
1	Plant Reclassified from Land to Struct. & Improv.	$ 262,067	
2	Depreciation Rate for Structures & Improvements	3.33%	
3	**Depreciation Adjustment - RUCO (L1 x L2)**		**$ 8,727**

References:
Line 1: Schedule GLF-6
Line 2: Data Response 2.11(j)

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Schedule GLF-13

OPERATING ADJUSTMENT #8 - INVESTMENT TAX CREDITS (ITC)

LINE NO.	DESCRIPTION	AMOUNT	
1	BMG Annual Amortization	$ (6,366)	
2	Annual Amortization - Page Division	(1,409)	
3	**ITC Adjustment - RUCO (L1 - L2)**		**$ (4,957)**

References:
Line 1: Company Response KFR-94, Attachment A, to Staff Data Request
Line 2: Docket No. G-03493A-98-0705, BMG Filing, Schedule C-2, Page 2 of 2

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Schedule GLF-14

OPERATING ADJUSTMENT #9 - INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]	[D]
	Calculation of Arizona Income Tax.				
1	Operating Income (Schedule GLF-7, L21)	$ 917,948			
2	Amortization of ITC (Schedule GLF-7, L18)	$ (4,957)			
3	Income Taxes Used to Calculate Operating Income (Schedule GLF-7, L19)	$ 496,212			
4	Operating Income Before Income Taxes (L1 + L2 + L3)		$ 1,409,202		
5	Less: Synchronized Interest (L24)		$ 145,934		
6	Arizona Taxable Income (L4 - L5)			$ 1,263,268	
7	Arizona State Income Tax Rate			8.00%	
8	Arizona Income Tax (L6 X L7)				$ 101,061
	Calculation of Federal Income Tax.				
9	Operating Income Before Income Taxes (L4)			$ 1,409,202	
10	Less: Arizona Income Tax (L8)			$ 101,061	
11	Less: Synchronized Interest (L24)			$ 145,934	
12	Federal Taxable Income (L9 + L10 + L11			$ 1,162,206	
		Taxable Income	Tax Rate	Tax	
13	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ 50,000	15.00%	$ 7,500	
14	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	$ 25,000	25.00%	$ 6,250	
15	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ 25,000	34.00%	$ 8,500	
16	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ 235,000	39.00%	$ 91,650	
17	Federal Tax on Fifthe Income Bracket ($335,001 to $10 million) @ 34%	$ 827,206	34.00%	$ 281,250	
18	Total Federal Income Tax (Shown in Column (D)	$ 1,162,206			$ 395,150
19	Combined Federal and State Income Tax - RUCO(L8 + L18)				$ 496,212
20	Income Tax - Company (Company Schedule C-1)				510,887
21	**RUCO Adjustment**				$ (14,675)
	Calculation of Interest Synchronization.				
22	Rate Base (Schedule GLF-3, Col. (C), Line 17	$ 10,831,870			
23	Weighted Average Cost of Debt (Schedule GLF-15, Col. [F], L1 + L2)	1.35%			
24	Synchronized Interest (L22 X L23)	$ 145,934			

Schedule GLF-15

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COST OF CAPITAL SUMMARY

LINE NO.	DESCRIPTION	(A) AMOUNT PER COMPANY	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED	(D) PERCENT	(E) COST RATE	(F) WEIGHTED COST RATE
1	Short-term Debt	$ -	$ -	$ -	0.00%	0.00%	0.00%
2	Long-term Debt	$ 3,000,000	$ -	$ 3,000,000	23.15%	5.82%	1.35%
3	Preferred Stock	$ -	$ -	$ -	0.00%	0.00%	0.00%
4	Common Equity	$ 9,959,563	$ -	$ 9,959,563	76.85%	10.75%	8.26%
6	Total Capital	$ 12,959,563	$ -	$ 12,959,563	100.00%		
7	Cost of Capital						9.61%

References:
Column (A): Company Schedule D-1
Column (B): Testimony, GLF
Column (C): Column (A) + Column (B)
Column (D): Column (C) / Column C, L6
Column (E): Company Schedule D-1
Column (F): Column (D) x Column (E)

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Schedule GLF-16

RATE DESIGN & PROOF OF REVENUE

LINE NO.	DESCRIPTION			RUCO PROPOSED RATE		RUCO PROPOSED ANNUAL REVENUE
	Residential					
1	Bills	67,836	$	5.80	$	393,449
2	Therms	4,016,312	$	1.0526	$	4,227,720
	Air Conditioning					
3	Bills	12	$	5.80	$	70
4	Therms	6,272	$	0.5160	$	3,237
	Commercial					
5	Bills	2,040	$	13.00	$	26,520
6	Therms	887,224	$	1.0476	$	929,489
	Resort					
7	Bills	301	$	27.18	$	8,181
8	Therms	298,408	$	1.0516	$	313,817
	Co-Generation					
9	Bills	24	$	22.00	$	528
10	Therms	100,176	$	0.4844	$	48,527
11	Total Gas Sales Revenue				$	5,951,537
12	Other Gas Revenues					64,740
13	Total Operating Revenue				$	6,016,277
14	Total Revenue Requirement				$	6,016,277
15	Excess Over Required Revenue				$	-
	CNG					
16	Bills		$	6.00		
17	Therms		$	0.4800		

	Service Charges:		
18	Establishment of Service	$	20.00
19	Re-Establishment - (within 12 mo.)	Mo. off system timeS Min. Chrg	
20	Re-Connection - Reg Hrs	$	30.00
21	Re-Connection - OT Hrs	$	45.00
22	Services - Per Hour - Reg	$	30.00
23	Services - Per Hour - Reg	$	45.00
24	Meter Re-read (If Correct)	$	25.00
25	Meter Test Fee (If Correct)	$	25.00
26	NSF Charge (Per Month)	$	10.00
27	Late Charge (Per Month)		1.5%